

CoLinx and the Power of Partnership

Manufacturers' joint venture shows cost/service benefits of combining logistics and e-commerce functions

Four competing manufacturers in the power-transmission sector took a chance four years ago. They agreed to create a jointly-owned, not-for-profit corporation to handle their logistics and electronic-commerce operations to gain efficiencies of scale. CoLinx LLC has since proven its value, boosting service levels for those manufacturers by handling everything from system-to-system transactions with distributors, website hosting, warehousing, light assembly, shipping, freight auditing, even import-export operations through its designation as a Foreign Trade Zone. The company hasn't attracted as many members as originally envisioned, in part because sharing control is difficult, but the companies involved have seen remarkable performance improvements, and CoLinx has ambitious plans for further growth.

By Douglas Chandler

Innovation can be a key to competitive dominance. Innovation through cooperation with competitors is a more radical idea—it can be hazardous from a legal standpoint and humbling from a management perspective—but four competing manufacturers in the power-transmission sector have proven that working through these issues carefully and creatively can bring significant performance improvements for all involved.

The story of CoLinx LLC began in summer, 2000, when a group of open-minded executives from four of the biggest names in bearings and power-transmission products—Rockwell Power Systems, SKF USA, The Timken Co. and INA USA—found they were wrestling with the same difficult issues. All were aggressively developing electronic-commerce capabilities and dealing with the immense financial outlays required to capture the efficiencies e-commerce promised. It occurred to them that they might be able to share costs by creating a separate, not-for-profit, shared-services company to handle their combined e-commerce needs.

Because electronic transactions must be completely integrated with logistics to be of much benefit, the executives wondered why they shouldn't take the idea a step further and see if they could combine logistics and warehousing operations as well.

A team of 50 to 60 people from the four

companies were involved in developing the idea through meetings at neutral sites, smaller meetings and phone conferences. After five months of negotiations and legal work, CoLinx launched in January 2001.

Since that date, the company has grown to employ 480 people, including a management team of 60, and expects to see just under \$40 million this year in service revenues, says Don Louis, who has been president of CoLinx since its founding.

E-commerce

CoLinx provides members with e-commerce capabilities through PTplace.com, a website hosting service that passes transaction data from customers to manufacturers using a standardized format. CoLinx also builds direct system-to-system connections between its manufacturers and their distributors, and between manufacturers and freight carriers as well.

Offering system-to-system (S2S) connections was not part of the original vision for CoLinx. But it quickly became apparent that, especially given the problem of myriad different legacy computer systems, there had to be a way to relieve manufacturers and distributors of the costs and headaches of establishing a separate connection with each supply chain partner, says Louis. The system-to-system connections allow distributors to access supply chain information directly from deep within the manufacturer's system. The connections between manufacturer and freight carrier allow seamless transmission of invoices and bills of lading.

By using the same transaction sets for both PTplace.com and the system-to-system connections, and by sharing the cost of the hardware and software and all the development, support and maintenance and associated personnel among its manufacturers, CoLinx is able to keep costs at a minimum. Distributors who make improvements in their transactions can quickly update their connections with over 12 premium brands through a single interface point. CoLinx also offers connection monitoring for the distributors and manufacturers.

"Basically, we've been able to give these brands a world-class website and system-to-

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system gateway at a declining cost. They're at the point now that they've got huge volumes going across it—over 6 million transactions a year—and their cost of keeping it running is insignificant, because it's shared," says Louis.

Logistics

The cornerstone of CoLinX's warehousing and logistics operations is its 670,000 square feet of warehouse space in Crossville, TN, with more than 50 dock doors for shipping, receiving and cross-docking. CoLinX offers its members packaging and labeling services, kitting and light assembly, and reverse logistics (returns processing), all performed to each manufacturer's specific requirements by an intensively cross-trained team.

Many of the company's warehouse services contribute to a "delayed differentiation" strategy, where the manufacturer can stock a product in a basic form that can be modified according to the customer's needs—whether packaged in a certain box, labeled in a certain way or assembled with other parts—immediately before shipping.

In the outbound shipping lanes, CoLinX's main value is in freight consolidation. Working with several manufacturers selling through the same distributor base enables them to send like-shipments to like-destinations, which means fewer trucks in the yard for the distributor, fewer receipts, and a consolidated bill of lading with multiple packing lists, making it easier for the distributor on the receiving end. Distributors can receive a mixed pallet daily instead of one pallet per week per manufacturer, making it easier for them to optimize and fine-tune their inventory.

The member manufacturers have closed eight distribution centers over the past year and turned those operations over to CoLinX. CoLinX operates warehouses in the Reno, Dallas, Philadelphia, Toronto and Edmonton metro areas as well as Crossville. The company ships more than 500 LTL shipments per day carrying more than 700,000 lbs of freight, and has achieved 93-percent next-day delivery coverage for distributor branches in the U.S. and Canada via LTL through its warehouse network.

CoLinX doesn't get involved in planning inventory levels or capacity. "They just tell us how many bin locations or pallet locations they want. We don't know what's in it—to us it's all just heavy round things in boxes," Louis says. "We don't own the inventory, we don't plan the inventory, we don't release the inventory, we don't insure the inventory. It's theirs."

In a move to streamline import and export

operations, CoLinX last fall earned designation as a Foreign Trade Zone. As an extension of the Knoxville Foreign Trade Zone, CoLinX is able to receive imported containers without the delays of customs at the ports, saving days and often weeks in the process. CoLinX is then able to do a filing weekly rather than paying a fee on each container. Any tariffs are delayed until the product is shipped to an end-user in the U.S., and CoLinX can ship to distributors in Mexico and Canada without the product having officially been in the U.S., eliminating the duty-drawbacks associated with re-exporting.

To win the FTZ designation, CoLinX had to demonstrate that it has the proper controls and procedures in place to comply with federal regulations and agree to a system of regular audits.

Membership

The manufacturers CoLinX serves are divided into two categories. Equity member manufacturers, who provide capital and oversight for CoLinX, have access to any or all services offered by the company, including warehousing of both products and data, freight bill audit and payment services, S2S connection with freight carriers and returned-goods processing.

Non-equity members have access to all services, but do not make capital contributions or pay for corporate functions. Non-equity members pay a fixed contractual markup from costs on all services.

Members' fees are based on a complex cost-sharing formula that Louis described as "extremely granular," to satisfy the inherent paranoia of the competing manufacturers. On the principle that no member should subsidize the activities of another member, CoLinX allocates costs according to a proprietary methodology that's laid out in the company's governing contracts.

Serving several manufacturers with competing interests forces the people at CoLinX to be extremely circumspect, especially with regard to topics that have anti-trust implications. Employees are trained intensively on what they can and cannot discuss. Anything relating to strategy, capacity, capacity planning, customers or shipping patterns is strictly off limits, says Louis.

In their original vision, the CoLinX founders hoped that many manufacturers would see the value of shared costs and would be eager to sign on. It didn't exactly work out that way—the four founding members and one non-equity member account for all CoLinX's activity—and that

turned out to be fortunate, says Louis.

"We envisioned that there would be many companies who would want to join the coalition. In fact, that was one of our anti-trust concerns—that we would be turning people away," Louis says. "We have not had to turn anybody away. We've talked with every company who showed any interest in our membership, and the truth is we have absorbed as many brands as we were physically able to absorb during the last three years... If we had moved too fast and tried to do too much, it would have been a disaster."

It's difficult for many executives to consider giving up full control over e-commerce and logistics to a shared-services company and accept partial control of the operation, Louis says. Turning logistics over to CoLinX would entail closing warehouses and cutting staff, and accepting a write-off of investments the executives themselves may have approved. On top of these "soft" issues, there's the money. Joining CoLinX as an equity member requires a significant investment, both in transitional costs of moving inventory and closing down existing warehouses, and in paying for the services used within CoLinX and a "fair share" of the fixed cost of capital that existing members have already put in. Payback may be as long as four years.

"Joining CoLinX is a strategic decision, one that takes strength of character and vision. If your emotions are not towards doing it, the money can easily stop you. Even if you have the money, the emotions can easily stop you," Louis says.

Future growth

CoLinX has added 163,000 square feet to its main warehouse in the past year and expanded its warehouse management system. The company has recently installed consolidated pack lines, engineered standards, and voice directed activity technology. All of the activities are driven by employee Kaizen events. The improvements have yielded impressive results.

"We process orders today so fast that you can hardly cancel them," Louis says. "An order that's entered online or via S2S will release to the warehouse and, depending on the time of the day, can be processed and sitting on a truck in as little as 7 minutes with no expediting or any special handling."

On top of these efficiency improvements, CoLinX has more ambitious growth plans for the near future. The company packages about 50,000 bearings a day with one shift, and Louis says there's capacity for expansion there. He also sees

more cross-docking as a growth opportunity for CoLinX members.

Over the next three years, Louis plans changes to the company's operations that he expects will yield a 30-percent increase in efficiency, and that will free some capacity to absorb further growth.

The company plans to expand its storage space by improving cube-utilization within its warehouses through reslotting, golden zones, new racking and other storage media, Louis says. There's also the option of adding another 163,000 sq. ft. to the existing facility in Tennessee.

"Our goal is to free up 250,000 square feet for growth during the next two to three years," Louis says. "That would mean that we could bring in at least two more companies the size of our owners."

Louis credits the organization's success thus far to a total commitment to honesty and integrity—what he calls cultivating "the heart of a servant."

"The thing about CoLinX is we're not about growing CoLinX as much as about growing our members," Louis says. "We're a not-for-profit organization. We just want our members and their distributors to succeed long term. We feel like we are playing a role in keeping American manufacturing and industrial distribution vibrant."

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